

Fiscal Note

Fiscal Services Division



SF 2368 – Disaster Loss Tax Coupling, Penalties & Interest (LSB 6216SV)
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Fiscal Note Version – New

Description

Senate File 2368 waives the application of penalty and interest charged to taxpayers that filed Iowa 2008 income tax returns claiming a 2008 disaster casualty loss deduction that was not allowed under Iowa tax law. The Bill applies only to penalty and interest charges. Refunds to the taxpayer of penalty and interest already paid are also required. The Bill is effective on enactment and applies only to tax year 2008.

Background

Federal individual income tax law was amended by the Heartland Disaster Relief Act of 2008 to allow an enhanced deduction of certain casualty losses on federal 2008 personal income tax returns. The original 2008 tax return instructions issued by the Department of Revenue assumed Iowa would couple with the federal provisions and therefore a similar enhanced deduction would be available on Iowa tax returns. Some taxpayers filed Iowa income tax returns claiming the same enhanced deduction for State income tax purposes. Since Iowa did not couple with this federal tax provision, the taxpayers that claimed the deduction on their Iowa income tax returns were required to file amended returns removing the deduction and in some cases, paying or owing penalties and interest.

Assumptions

- Although the tax liability associated with the casualty loss deductions at issue is estimated to be \$8.8 million, the Department assumes only 20.0% of impacted taxpayers actually filed returns utilizing the casualty loss provision (\$1.76 million in tax revenue).
- The penalty rate is 5.0% for underpayment of taxes (\$88,000).
- The interest rate is 7.0% and is assumed to be for the period of May 2009 through April 2010 (\$123,000).
- The Iowa Department of Revenue will enforce the provision and the impacted taxpayers will pay the tax prior to the end of FY 2010.

Fiscal Impact

Current Iowa law does not allow the enhanced casualty loss deduction for tax year 2008 so those taxpayers that claimed it will owe the additional tax as well as a total of \$211,000 in penalties and interest. This Bill waives the penalty and interest so the fiscal impact is a reduction in net General Fund revenue of \$211,000 in FY 2010.

Source

Department of Revenue

/s/ Holly M. Lyons

March 9, 2010

The fiscal note for this bill was prepared pursuant to **Joint Rule 17**. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
